



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2011 Biennium

Bill #	HB0393	Title:	Special contract for city police fund to transfer to statewide retirement plan
Primary Sponsor:	Welborn, Jeffery	Status:	As Introduced

Retirement Systems Affected: ☐ Teachers ☒ Public Employees ☐ Highway Patrol ☒ Police
☐ Sheriffs ☐ Firefighters ☐ Volunteer Firefighters ☐ Game Wardens ☐ Judges

Check the box if "Yes".

- ☐ Has this legislation been reviewed by the legislative interim committee?
☐ Has the cost of this legislation been calculated by the system's actuary?
☐ Does this legislation include full funding for any benefit revisions?

<u>PERS</u>	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	6.900%	6.900%	6.900%	6.900%	6.900%
Employer Contribution Rate (State&UN	7.035%	7.170%	7.170%	7.170%	7.170%
Employer Contribution Rate (Local Govt	6.935%	7.070%	7.070%	7.070%	7.070%
State Contribution Rate (Local Govt)	0.100%	0.100%	0.100%	0.100%	0.100%
Employer Contribution Rate (SD)	6.800%	6.800%	6.800%	6.800%	6.800%
State Contribution Rate (SD)	0.235%	0.370%	0.370%	0.370%	0.370%
TOTAL Contribution Rate	13.935%	14.070%	14.070%	14.070%	14.070%

<u>MPORS</u>	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	9.00%	9.00%	9.00%	9.00%	9.00%
Employer Contribution Rate	14.41%	14.41%	14.41%	14.41%	14.41%
State Contribution Rate	29.37%	29.37%	29.37%	29.37%	29.37%
TOTAL Contribution Rate	52.78%	52.78%	52.78%	52.78%	52.78%

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund		----- Not Determinable -----		
Pension Fund		----- Not Determinable -----		
Revenue:				
General Fund		----- Not Determinable -----		
Pension Fund		----- Not Determinable -----		
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: HB 393 allows the transfer of a local police retirement system into a statewide retirement system and should be neutral to the statewide system (PERS or MPORS) as the transfer takes place. The actuary was not able to cost the transfer because of unresolved issues within the bill and not having sufficient data from the transferring employer (City of Dillon).

If employees transfer to MPORS there will be a higher state cost in the future. The state contribution rate for MPORS, which is paid by general fund, is 29.37%. The local retirement plan's employer share is 11%.

FISCAL ANALYSIS

Assumptions:

Montana Public Employees Retirement Administration (MPERA)

1. A local police retirement fund may transfer into either Public Employees Retirement System (PERS) or Municipal Police Officers' Retirement System (MPORS) based on a contract process defined in HB 393.
2. This bill only impacts the City of Dillon. The city has 8 active members and 11 inactive members for a total membership of 19 as of 2007 in their local retirement fund.
3. The employer share of the local retirement fund for the City of Dillon is 11% of salaries. This is set in statute (19-19-301, MCA).
4. The employee share for local plans is 6%. This is also set in statute (19-19-302, MCA).
5. If contract provisions are met, the members of the local police fund will become members of PERS or MPORS on the effective date. All cash and securities in the local fund will be transferred to either PERS or MPORS.
6. Retired members and other benefit recipients will receive benefits from PERS or MPORS in the same form and benefit amount received under the local plan.
7. Active members will each receive service credit under PERS or MPORS based on the actuarial value of each member's benefit accrued under the local plan.
8. Active members will transfer all service under the local plan to PERS or MPORS for eligibility purposes.

Effect on Local Governments:

1. If the local police plan transferred asset does not cover the pension obligation, the governmental entity will be charged for the shortfall over a fixed period of time as specified in the contract. See new section 4.

Technical Notes:

1. The actuary has not looked at this legislation to cost HB 393 but has given an actuarial opinion as to the issues in the bill that are of concern or need resolution before the bill can have an analysis performed.

2. The service credit calculation for conversion of benefit service from the local plan to PERS or MPORS is not explicitly defined in the bill. An explicit set of factors or process should be defined so that the interpretation of this bill is not subjective from case to case.
3. The bill does not address the GABA to be assigned to the new group. Will the eligibility be based on the eligibility service, the hire date in the local plan, the transfer date into PERS or MPORS or some other parameter?
4. The amortization period and discount rate for paying the unfunded pension liability should be defined. The amortization period could be a set period for all transferring plans, or a schedule defined in the contract subject to a maximum allowable period. The discount rate should be tied to expected earnings on assets in the transferee system.
5. The treatment of inactive members not currently in pay status in the local plan transferring to PERS or MPORS is not defined in the bill.
6. The actuary states that the bill does not amend 19-9-207, MCA. If a local police fund transfers to MPORS, it appears that the requirements of 19-9-207, MCA would still apply. The intention of new section 5 would be to ensure there would not be a conflict between the existing provisions and the new language in the bill.
7. The bill does not explicitly define “excess accrued liabilities not previously funded by the city”. Is it intended that the city would have to fund to the funded level of either PERS or MPORS at the time of transfer?
8. The actuary disclaims any comment on whether the revenue provided by the additional taxes in the bill could actually fund the “excess accrued liabilities” that may exist upon transfer.
9. In order to value the impact on any potential transfer, the actuary would need resolution to the factors or procedure for benefit service conversion and the inactive member issues. Once the issues are resolved the actuary will have to develop a conversion procedure. The actual fiscal impact should be calculated using the most current local member data and current asset data from the City of Dillon along with the most current PERS or MPORS actuarial valuations.
10. Under MPERA's normal process, retired members and other benefit recipients transfer to an MPERA plan in the same form of benefit amount received under the local plan but (under PERS or MPORS) would receive future benefits that include the guaranteed annual benefit adjustment just as other retirees do. (Compare to Assumption #3).
11. Under MPERA's normal process, active members will each receive the same service credit under PERS or MPORS that each member had accrued under the local plan. (Compare to Assumption #4). Using the actuarial value of the member's service credit could greatly skew the service the members receive in the new plan. They could receive far less service credit giving the employer a large cost savings on the transfer (MPORS); or the members could receive greater service credit than they had in the local plan, giving these members unequal service compared to other members in the plan (PERS). Either option could significantly cost or give credit unfairly to the members or the plan.
12. The bill should contain a contingent voidness clause in the event that the City of Dillon is not able to obtain the necessary funding to transfer the local police retirement system to a statewide retirement system.
13. On the advice of MPERA tax counsel, MPERA has requested that the City of Dillon obtain a determination letter from the IRS stating that they currently have a qualified plan. The statewide retirement systems cannot accept money from a retirement system that is not qualified without tax consequences.

Sponsor's Initials

Date

Budget Director's Initials

Date